

July 1, 2004

Dr. Eric Erba, Acting Chief
Dairy Marketing
California Department of Food and Agriculture
1220 N Street
Sacramento, California 95814

Dear Dr. Erba:

Land O' Lakes is submitting the following alternative proposal for the hearing to consider amendments to the milk movement incentives as provided in the Pooling Plan for Market Milk and the Stabilization and Marketing Plans for Market Milk for the Northern California and the Southern California Marketing Areas.

Proposal number 1: Adjust the transportation credit from 68 cents to 83.5 cents for milk shipped from Tulare County to Riverside County and to San Diego from 60 cents to 75.25 cents for milk shipped from Tulare County to LA county, Orange County or Ventura Counties. There has usually been a shortfall in moving milk on a plant-to-plant basis from the South Valley to Southern California. In light of the "increased need" for out-of-area milk in Southern California due to dairies moving from Southern California to out-of-state locations and into other California areas and the dramatic increased threat of out-of-state milk as a source of milk for California processors, we are advocating no shortfall. We are also proposing to establish a transportation credit for condensed skim of .8125 per cwt for condensed skim moving from Tulare County to Los Angeles, Orange and Ventura Counties and a .895 cent credit for condensed skim from Tulare County to Riverside and San Diego Counties. We, of course, recommend that the area differential be maintained at 27 cents per cwt between Northern and Southern California.

The specific language would be as follows:

Section 300.2. Each handler located in counties designated herein as a supply county may deduct from the applicable minimum prices pursuant to Section 300.00, paragraph (A), a transportation credit for quantities of market milk, condensed skim and market skim milk shipped in bulk form to a plant located in a designated county. Shipments of cream are excluded from such transportation credits. Such deduction shall not exceed amounts shown for such bulk transfers in the following schedule:

	Maximum Deduction Per cwt	For Shipments to Designated Deficit Counties
Tulare County	\$.835	Riverside

Tulare County	\$.7525	Orange, Los Angeles or Ventura Counties
Fresno County	\$.865	Riverside
Fresno County	\$.7825	Orange, Los Angeles or Ventura Counties

The schedule for condensed skim would be as follows:

Tulare County	\$.895	Riverside or San Diego Counties
Tulare County	\$.8125	Orange, Los Angeles or Ventura Counties

The remainder of the transportation credits would remain unchanged.

Proposal 2. To make California more competitive with out-of-state sources and to provide more producer equity, we are recommending two important changes in the transportation allowance. One is to change the current transportation allowance to account for increased hauling rates and the second is to limit the supply counties for the transportation allowance system. Based upon the local haul to manufacturing facilities and the long distance haul to Class 1 plants in Southern California we are proposing an adjustment in the transportation allowance from 43 cents per cwt to 47.75 cents per cwt from Santa Barbara, San Diego, Imperial, Kern, Kings and Tulare Counties. For plants located in the Southern California receiving area which shall consist of counties of Los Angeles, Orange, Ventura and Riverside, we recommend that from Inyo, Los Angeles, Mono, Orange, Riverside, San Bernardino and Ventura Counties that from zero to 89 miles the transportation allowance should remain at 9 cents per cwt and over 89 miles the transportation allowance should be established at 12 cents per cwt. The reason for the 12 cents is this represents the difference between the haul cost to a manufacturing facility and the longer haul to a Class 1 milk plant in the deficit market area. The current transportation allowance of 43 cents for mileage from 89 to 139 is simply too large for producers located in the Southern California milkshed. They are over-compensated for the haul cost to the Class 1 milk plants in Southern California. We recommend the elimination of Fresno County and all other counties not listed below as supply counties for the transportation allowance system. As usual, we believe the transportation allowance should be available only to producers who have the option of shipping their milk to a manufacturing facility and that the transportation allowance should reflect the difference for the longer haul to a Class 1 plant and the shorter haul to a manufacturing facility. The size of the transportation allowance should be no larger than that difference in the hauling rates to producers.

Section 921. Producers, including producer-members of cooperative associations, will receive transportation allowances on shipments to plants which are located within designated areas and which, during the immediately preceding 12-month period actually processed more than 50 percent of the total pounds of milk processed at the plant location into products other than Class 4a or Class 4b. For purposes of this section, a “plant” includes one of more pool plants under single ownership within a designated area.

For plants located in the Southern California receiving area which shall consist of the counties of Los Angeles, Orange, Ventura and Riverside:

- (1) From Inyo, Los Angeles, Mono, Orange, Riverside, San Bernardino, and Ventura counties the following transportation allowances will apply:**

	Rate
From zero through 89 miles	\$.09 per CWT
Over 89 miles	\$.12 per CWT

- (2) From Santa Barbara, San Diego, Imperial, Kern, Kings and Tulare Counties**

From zero through 89 miles	\$.09 per CWT
Over 89 miles through 139 miles	\$.4775 per CWT
Over 139 miles	\$.58 per CWT

For plants located in the San Diego receiving area, which shall consist of the County of San Diego:

- (1) From Inyo, Los Angeles, Mono, Orange, Riverside, San Bernardino and Ventura Counties**

	Rate
From zero through 89 miles	\$.09 per CWT
Over 89 miles	\$.12 per CWT

- (2) From Santa Barbara, San Diego, Imperial, Kern, Kings and Tulare Counties:**

	Rate
From zero through 89 miles	\$.09 per CWT
Over 89 miles through 139 miles	\$.4775 per CWT
Over 139 miles	\$.58 per CWT

Justification for the proposals:

1. One of the reasons for the adjustments in the transportation credits and the transportation allowance is to reflect recent changes in milk hauling rates due to increased fuel costs. It is important to update such transportation credits and allowances to reflect changing conditions. It is also imperative that we make these adjustments when necessary due to the threat of increased importation of milk from out-of-state sources. It is also essential that we add a transportation credit for condensed milk because without such a credit, the in-state sources of condensed skim is not competitive with out-of-state sources.
2. The transportation allowances should be limited to the difference between the shorter haul to a manufacturing facility and the longer distance haul to a Class 1 milk plant. The current program over pays certain producers. The situation in San Benardino County is simply different from Kern County. One reason is the ridge and the second reason is that the local haul rates to local manufacturing facilities is also different. It is inappropriate to use a system that applies to all locations because the current system results in over-compensation for some producers

We are looking forward to presenting testimony on these alternative proposals at the hearing on August 4, 2004.

Sincerely,

James W. Gruebele
Consultant for Land O' Lakes

CC: Kelly Krug
John Lee